

Chapter 8

COVERAGE OF SOCIAL SECURITY

In 1935, the Committee on Economic Security recommended that the Roosevelt Administration create a contributory and compulsory retirement program for "all manual workers and non-manual workers earning less than \$250 per month, except those of governmental units and those covered by the United States Railroad Retirement Act."^{1/} As enacted, the original Social Security law provided coverage only for employees in commerce and industry. Subsequent legislation extended coverage to the vast majority of people who work for a living in the United States. The major exceptions now are permanent civilian employees of the Federal government, employees of State and local governments which have not elected coverage for their employees, and employees of nonprofit organizations which have not waived their exempt status in order to provide Social Security coverage for their employees.^{2/}

^{1/} Report to the President of the Committee on Economic Security, U.S. Government Printing Office, 1935, p. 29.

^{2/} Although railroad employment is not covered by Social Security, the coordination and computation procedures have in effect "covered" railroad employment. In fact, since enactment of the Railroad Retirement Act of 1974 (P. L. 93-445), the program has provided a two-tier benefit in which tier 1 is, for all practical purposes, a Social Security benefit based on railroad and Social Security employment.

The idea of extending Social Security coverage to non-covered workers is not new. As early as 1938, the Advisory Council on Social Security recommended extending coverage to the self-employed and to government employees.^{3/} Since then, various advisory councils and other government agencies have made recommendations ranging from wage credits for Federal civilian workers who died or left the government with less than five years of employment^{4/} (vesting occurs at five years of service) to the extension of coverage to virtually all gainfully employed individuals.^{5/}

The Social Security Amendments of 1977 directed the Secretary of Health, Education, and Welfare to conduct a study on the subject.

^{3/} Advisory Council on Social Security, Final Report, Senate Document No. 4, 76th Congress, 1st Session, 1939, pp. 22-23.

^{4/} Advisory Council on Social Security, Recommendations for Social Security Legislation, Senate Document No. 208, 80th Congress, 2nd Session, 1949, pp. 15-28.

^{5/} Advisory Council on Social Security, Reports of the Advisory Council on Social Security, House Document No. 94-75, 94th Congress, 1st Session, 1975, pp. 33-35.

The resulting Universal Social Security Coverage Study Group made no specific recommendation on universal coverage when it issued its report in March 1980, but the feasibility of universal coverage was confirmed.^{6/}

Commission Recommendations

The National Commission has considered the practical reasons for historically excluding groups from the program and believes that, in principle, everyone who works in this country should be covered by Social Security. It also recognizes that those who are now covered by government plans should continue to be protected by those plans and should not be required to join the Social Security system.

Specifically, the National Commission recommends that Social Security coverage be extended to:

^{6/} The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State, and Local Governments and Private, Nonprofit Organizations, Report of the Universal Social Security Coverage Study Group, March 1980, p. xvii. Although no recommendation was made by the Study Group, the Chairman, Joseph W. Bartlett, Jr., did express his personal support for extending coverage to Federal employment in a letter to the Secretary of the Department of Health, Education, and Welfare. He stated that, "all things considered, the Federal work-force should be brought within Social Security in the near future. There appear to be no insuperable constitutional or legal impediments. The unintended and unfair advantages that Federal workers now enjoy would be removed. Equally important, workers would gain better overall income protection when they move in and out of Federal service. They would also obtain portable wage-indexed credits for some portion of their retirement portfolio over their entire working career, and more adequate safeguards for spouses, especially in the event of divorce. Lower-wage Federal workers in particular would receive better benefits. Finally, the overall mobility of workers into and out of Federal employment would be eased."

- (1) All civilian employees of the Federal government hired after 1984;
- (2) All employees of State and local government units. not now under Social Security hired after 1984;
- (3) All current and future employees of State and local governments not covered under a State or local pension plan as of January 1, 1982; and
- (4) All current and future employees of nonprofit organizations, as of January 1, 1982.

In addition, Hospital Insurance coverage should be extended to all civilian employees of the Federal government and all employees of State and local governments, as of January 1, 1982 without regard to whether they are covered under Social Security.

The Commission also recommends that, effective in 1982, the “windfall” portion of Social Security benefits (which results from the weighting of the benefit formula) be eliminated for people who have significant amounts of non-covered government employment in the future. This would be accomplished by including an individual’s government earnings in the calculation of his or her Primary Insurance Amount.^{7/}

^{7/} The method for calculating this amount is discussed on pages 153-154.

The Commission believes that Social Security coverage should ultimately be available to all workers and their families. Social Security combines a package of features that, taken together, are not matched in other pension plans. These features include portable protection from job to job, wage records updated to reflect economy-wide wage changes during the worker's lifetime, a weighted benefit formula that helps low-paid workers, benefits that are automatically adjusted to keep pace with the cost of living, and benefits for aged spouses or young families of workers who die. The Commission believes that the Social Security program is the foundation of income security when earnings cease due to disability, death, or retirement. All workers and their families should share in both the benefits and the costs.

A compulsory and universal Social Security system would eliminate serious gaps in individual protection and end costly duplication and windfall benefits paid to some. Unless the basic, national program is universal, there will continue to be many people who lose protection as they move from job to job.

The National Commission believes that coordinated systems for government employees can be developed which will:

- (1) Not merge government plans with the Social Security system;
- (2) Continue untouched the present plans for current Federal employees and retirees and for current employees and retirees of State and local governments who are not covered by Social Security;

- (3) Provide protection for new employees of Federal, State, and local governments which, as a result of the extension of Social Security coverage, would not be less than that provided under the current government plan;
- (4) Place no additional financial burden on public employees without offsetting increases in benefits;
- (5) Not interfere with future improvements in public employee retirement systems, including the Civil Service Retirement System. These plans would not lose their identity as such.

In addition, the financing plan for Social Security proposed by the Commission and detailed in Chapter 3 assures newly-hired government workers, as well as those not currently covered by a pension plan, that the Social Security benefits promised will be paid when they come due.^{A/}

Federal Employees

In general, Federal civilian employment is not now covered by Social Security and Hospital Insurance. Federal employees were originally excluded from Social Security because they were already covered by their own staff retirement plans--the Civil Service Retirement System or a similar smaller plan.^{8/} In 1950, the small number of Federal employees not covered by a pension plan were

^{8/} In all cases, when reference is made to the Civil Service Retirement System, the Commission includes all Federal retirement systems, including those for Foreign Service personnel, etc.

^{A/} See dissenting statement on mandatory Social Security coverage of government workers by Ms. Miller.

brought under Social Security.^{9/} Members of the Armed Forces on active duty have been covered since 1957.

Coverage of New Employees

The Commission recommends that Social Security coverage be provided for people who are hired by the Federal government after 1984. Social Security coverage can improve the protection of newly hired Federal employees in several ways. First, it will provide them with continuity in their disability protection. Federal employees must work 5 years in the Federal government system in order to gain disability protection. In 1979, about 600,000 Federal employees, slightly more than 20 percent of the total, were likely to be without disability coverage under the Civil Service Retirement System.^{10/} For young workers starting their careers, disability protection under Social Security accrues more rapidly than under the Federal employee system. For workers with families to support, Social Security disability benefits are often more generous than under the Federal system because the Federal system does not provide added benefits for disabled workers' children.

^{9/} Except where noted, data in this chapter concerning Federal government, State and local government, and nonprofit retirement plans and employees were taken from The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State and Local Governments and Private, Nonprofit Organizations, Report of the Universal Social Security Coverage Study Group, March 1980, Chapter 2.

^{10/} The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State, and Local Governments and Private, Nonprofit Organizations, Report of the Universal Social Coverage Study Group, March 1980, p. 106.

Second, Social Security coverage will provide continuity in survivor protection. Government workers' survivor and disability protection lapses when they leave Federal employment. Workers who become disabled, and the families of workers who die shortly after moving from Federal employment to a private sector job, have no benefit rights from the Federal system. The lack of Social Security coverage during their government service can cause their Social Security protection to lapse or be greatly reduced. The Commission's recommendation will assure that this does not happen to newly hired government workers who later leave Federal employment.

Finally, Social Security coverage will assure continuity in the earnings records on which retirement benefits are based. In this way, newly hired Federal employees, like other workers in the private sector, will have retirement benefits from Social Security that reflect their lifetime earnings.

It is important to note that none of the approaches for extending Social Security coverage to Federal employees which the Commission has reviewed, or which it would endorse, propose merging the funds of the Civil Service Retirement System and the Social Security system. The two programs would each maintain their own separate financing mechanisms. Some who oppose universal coverage believe its main purpose is to solve Social Security's financing problems. This is not the case. Although extension of coverage to Federal employees would cause a decrease in long-range Social Security costs, this was not the predominant reason for the Commission's recommendation to extend coverage to new civilian Federal employees.

The Commission rejected proposals to cover current Federal employees under Social Security, in part because coordinating the provisions of the two programs for people who are approaching the age at which optional early retirement is possible would be much more difficult.

Difficulties of the Transfer-of-Credit Approach

The Commission considered the transfer-of-credit approach. Under such a plan, if a worker became eligible for Civil Service Retirement benefits, earnings covered under Social Security would count toward extra Civil Service benefits, but not for Social Security. If a worker were not eligible for Civil Service benefits, earnings in Federal employment would be added to his or her Social Security earnings, and the worker would be paid through the Social Security system. In this case, a payment would be made to the Social Security trust funds by the government pension fund when an employee left the non-covered employment. The amount would equal the cumulative Social Security taxes which would have been paid had the employment been covered. In theory, Social Security could also pay transfers when employees left covered employment for non-covered employment. While the plan has the virtue of leaving all current pension systems unchanged, the Commission concluded that:

- (1) Mandatory one-way credit transfers introduce inequities for non-covered workers unless the transfers are coupled with stringent vesting requirements for public employee retirement systems; and
- (2) Two-way credit transfer schemes are administratively cumbersome.

Although the transfer-of-credit approach is historically the most-studied alternative to universal coverage for Federal employees, the Commission concluded it was less desirable than full coverage of new employees.

Federal Employee Benefit Protection Board

For newly-hired employees, coordination of the Civil Service Retirement System and the Social Security system could be accomplished several different ways. The Commission does not recommend a specific approach to coordination. An approach should be developed for Congressional consideration by Civil Service Retirement System experts in consultation with Civil Service employee and retiree representatives.

A major concern of Federal employees and their unions as expressed at the Commission's hearings was that their protection would be diminished if they were covered under Social Security. To assure them that this will not happen, the Commission recommends creation of a Federal Employee Benefit Protection Board to assure that the protection provided in combination with Social Security for new employees, would not be less than that provided for current civilian employees.

The Board should have a limited life of five years and be made up of seven members appointed by the Congress and the President, with Presidential appointees subject to confirmation by the Senate. The members of the Board should be:

- (1) A Chairman, appointed by the President;
- (2) Two members to represent the public, appointed by the President;

- (3) Two members to represent the public, one appointed by the President pro-tempore of the Senate and the other appointed by the Speaker of the House of Representatives; and
- (4) Two members to represent organizations of Federal employees, one appointed by the President pro-tempore of the Senate and the other by the Speaker of the House of Representatives.

The Commission recommends that the Board be created by 1982 and serve through 1986. This will allow three years for it to oversee the development of the coordinated system (to go into effect in 1985) and two years for it to assess the effectiveness of the system in providing appropriate benefits.

Medicare

Under the present program, many Federal retirees become eligible for Hospital Insurance under Social Security at 65, either as the result of their own work outside the government or the work of a spouse. They can also purchase Supplementary Medical insurance. They are, however, also covered under the Federal employees health insurance system under the same conditions as and at the same cost as younger Federal employees. The cost of the protection provided retired workers under the Federal employees system, however, is less than that for younger employees, because the cost of their benefits is reimbursed first from Medicare and only the residual cost is paid by the Federal employee program.

In order to provide uniform protection, the Commission recommends that Hospital Insurance coverage of Federal employees (both current and future) be required starting in January 1982, and that a new supplemental Federal employee program be provided for them with a reduced premium, to take account of the protection provided by Medicare. If HI coverage is not extended in this manner, then windfall benefits should be eliminated or lessened for persons who have noncovered governmental employment in the future.

Starting in 1982, Federal employees would pay the employee share of the Hospital Insurance tax rate, which, under the Commission's recommendations, would be 1.3 percent of earnings up to about \$32,400. These contributions would count toward Medicare entitlement when workers reach age 65. Because some Federal employees will be nearing retirement age and will not have an opportunity to work long enough to qualify for Hospital Insurance, the Commission recommends that prior Federal employment be counted as covered employment for purposes of determining eligibility for Medicare only.

Coverage of Officials

One of the public's major complaints about Social Security is that Congress increases Social Security taxes but they, as Members of Congress, do not pay these taxes. The National Commission recommends that Social Security and Hospital Insurance coverage be extended to the President, the Vice President, the Cabinet, the Commissioner of Social Security, and Members of Congress without delay. At the same time, Civil Service Retirement benefits payable to these officials should be reduced by the amount of the Social

Security benefits accruing; similarly, the Civil Service Retirement contributions should be reduced by the amount of the Social Security taxes. The Commission believes that public confidence in the financial integrity of the Social Security system would be improved and a firm basis for extending coverage to newly hired Federal employees would be established by this action .B/

State and Local Government Employees

Employees of State and local governments were not included- under Social Security in 1935 because the legality of their coverage was unclear in view of the Constitutional prohibition against taxation of the States by the Federal government.

State and local governments which lacked existing pension plans were given the option of having their employees covered by Social Security in 1950. Coverage was extended to State and local employees who already had a pension plan in 1954, if a majority of the employees concurred in the decision. Once a State or local government provides Social Security coverage, all new employees are automatically covered thereafter. If employees are not covered by an existing pension plan, the State is not required to get employee concurrence for Social Security coverage.

There are about 6,000 different public retirement systems covering approximately 10 million State and local government employees which pay benefits to about 2 million retirees, disabled workers, and surviving dependents. Each is independently established by a governmental body, and most have been designed to meet

B/ See supplementary statement on universal coverage by Mr. Dillman, Mr. Laxson, Mr. MacNaughton, and Mr. Rodgers. .

the needs of specific groups of employees. About one-half of those covered belong to large general employee retirement plans or plans for teachers or public safety personnel. The great majority of State and local government employees -- 72 percent -- are already covered by Social Security, and usually by a public employee plan as well. When pensions are coordinated with Social Security, the latter is used as the base.

Extending Coverage

The National Commission recommends that Social Security coverage be extended to all new employees of State and local governments who are hired after 1984. It further recommends that, effective January 1, 1982, Social Security coverage be extended to those State and local government employees who are not covered under a pension plan. The extension of coverage will provide protection to the approximately 184,000^{11/} current employees, mostly of local governments, who have neither a pension plan nor Social Security coverage. Without Social Security coverage, many of these workers could retire without substantial benefit protection.

Although most noncoordinated State and local plans offer some protection for dependents, survivors, and disabled workers, the benefits provided are generally less generous than under Social Security. For example, an employee must work at least five years to receive

^{11/} Pension Task Force Report on Public Employment Retirement Systems, Committee on Education and Labor, U.S. House of Representatives, 95th Congress, 2nd Session, March 1980, p. 60. The Pension Task Force Report resulted from a comprehensive review of public employee retirement systems by the Subcommittee on Labor Standards of the Committee on Education and Labor.

disability protection under most non-coordinated plans. Unlike Social Security, survivor benefit protection is usually optional and, to receive it, the worker must accept a reduction in his or her own retirement benefit.

On average, the total retirement benefits paid to workers under State and local plans that supplement Social Security are higher than those of noncoordinated systems. In 1976, the combined per capita benefits of covered systems exceeded the benefits of noncovered systems by 20 to 60 percent.^{12/} Unlike Social Security, most State and local pension plans provide only limited cost-of-living increases --typically 3 percent per year.^{13/}

The Commission cannot recommend a specific adjustment formula for coordinating noncovered plans with Social Security because of the variety of such State and local plans. Coordination can occur in a variety of ways which do not disturb the level of protection provided under current plans.^{14/} This maintenance of protection is especially

^{12/} The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State, and Local Governments and Private, Nonprofit Organizations, Report of the Universal Social Security Coverage Study Group, March 1980, p. 27.

^{13/} Ibid., p. 28.

^{14/} The section of the Social Security Act which authorizes coverage agreements with the States indicates that it is the policy of Congress that providing Social Security coverage should not impair the protection provided under State and local plans. A more specific requirement is that the Governor of a State (or his or her designee) certify that "the overall benefit protection . . . would be improved" before Social Security coverage can be extended to certain firemen.

important in hazardous occupations such as law enforcement and fire-fighting where the ability to retire early with a good pension is an important recruitment incentive.

Adding Social Security on top of current government plans could be very expensive. For this reason, the Commission believes that States and localities with reasonably generous and adequately financed systems should design affordable, coordinated plans, as other private and public employers have done rather than merely adding Social Security to their existing plans.

The Commission also recommends extending Hospital Insurance coverage to all employees of State and local governments as of January 1, 1982. It believes that the extension of Social Security and Hospital Insurance coverage will in many ways improve protection of State and local government workers.

Some State and local government plans provide continued health insurance for retired employees and their spouses (as does the Federal Civil Service Retirement System), but many do not. Individuals who qualify for Hospital Insurance benefits on the basis of limited covered work gain a windfall in that they pay relatively little for such coverage. If Hospital Insurance coverage is not extended in this manner, then windfall benefits should be lessened or eliminated for people who have noncovered governmental employment in the future.

Withdrawal from Social Security

Under the National Commission's recommendation, current coverage agreements would continue in effect. Present law provides, however, that once a coverage agreement has been in effect for at

least five years, the State or local *government may terminate the agreement with a two-year notice. By September 1979, coverage had been terminated for 112,000 employees. At the same time, termination notices were pending which could exclude an additional 98,100 employees from Social Security. One State, Alaska, terminated coverage for all State and local government employees throughout the State, as of December 31, 1979.

The Commission recommends that future terminations be permitted only if the notice of termination is filed not later than one year after the date on which the legislation making coverage compulsory is enacted. This limitation on terminations should be enacted even if compulsory universal coverage is not enacted. The provisions of present law which prevent re-coverage of a group which has terminated would remain in effect for current employees, but could be overridden for new hires. For example, all current State and local government employees in Alaska would be excluded from Social Security coverage forever, but new hires could be included.

Constitutional Considerations

The Commission believes that the prospect of a Constitutional challenge is not sufficient reason to delay the enactment of mandatory Social Security coverage of new State and local government employees. The Commission believes that a method can be found which will pass the test of constitutionality.

In the most recent case on a related issue, National League of Cities v. Usery,^{15/} the Supreme Court found that Congress had exceeded its authority in 1974 by amending the wages and hours provisions of the Fair Labor Standards Act to cover employees of State and local governments. The Court held that Congress had exceeded its power under the Commerce Clause in so far as the statute "operate(d) to directly displace the States' freedom to structure integral operations in areas of traditional governmental functions"^{16/}

In the view of Jesse H. Choper, Professor of Law at the University of California and a constitutional law expert who has studied this issue:

...there are a number of methods that Congress might use to extend Social Security coverage to state and local government employees. Although National League of Cities clearly circumscribes Congress' powers to tax the states directly, the case may well be distinguishable from the Social Security question. Additional facts and specific details about the impact and the fiscal need for the program are necessary for more careful consideration of how the Court would decide this case in light of NLC. Regardless of the effect of NLC, however, Congress has other potentially very powerful sources of authority. Congress, either by requiring state and local employees to pay both the employee and employer share, or by acting pursuant to its authority to enforce the equal protection clause of the fourteenth amendment, may well be able to avoid the state sovereignty problems presented by the tenth amendment. Finally, Congress might induce the states to adopt Social Security by conditioning the payment of certain related Federal funds on state compliance.^{17/}

^{15/} 426 U.S. 833 (1976).

^{16/} *Id.* at 852.

^{17/} The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State and Local Governments and Private, Non-profit Organizations, Report of the Universal Social Security Coverage Study Group, March 1980, p. 250.

Nonprofit Organizations

Employees of nonprofit charitable, educational, and religious organizations (as defined in section 501(c)(3) of the Internal Revenue Code of 1954), which are exempt from income taxes under section 501 (a) of the Code, were not included under Social Security initially because their employers were generally exempt from taxes. Since 1950, they may be covered if the employer files a waiver certificate stating that it desires to extend coverage to its employees. About 133,000 organizations with about 4 million employees are currently covered and little is known about their pension plans. Only about 10-15 percent of the nonprofit organizations' employees lack Social Security coverage.

Extending Coverage

In keeping with its belief that Social Security and Hospital Insurance protection should be available to everyone in the country who works,^{18/} the Commission recommends that coverage be made compulsory for all employees (both current and future) of nonprofit organizations as of January 1, 1982. In contrast to its earlier proposals on government employee plans, the Commission recommends

^{18/} Supplementary Medical Insurance is currently available to all persons aged 65 and over, regardless of the extent of covered employment, because it is an individual voluntary plan.

covering current, as well as future, employees of nonprofit organizations because benefit protection is minimal for most not covered under Social Security ^{19/}

The Commission realizes that some religious organizations may oppose Social Security coverage on the basis of conscience and religious tenets. It therefore recommends authorizing opting out by nonprofit organizations operated by a religious sect which is conscientiously, or because of religious principles, opposed to acceptance of public insurance. ^{20/}

Under present law, nonprofit organizations which have elected coverage under Social Security for their employees have the right to withdraw from the program under conditions similar, although not identical, to those applicable to State and local governments. The Commission recommends that, even if coverage is not extended compulsorily to nonprofit organizations, they not be permitted to withdraw from the Social Security system. However, as with State and local governments, a one-year grace period following the date of enactment should be provided for nonprofit organizations which wish to file notices of their intent to withdraw.

^{19/} Nonprofit organizations may now elect up to five years of retroactive coverage. At the time that the waiver is filed, a list of the names of employees who desire coverage, including the names of those employed during the retroactive period, are submitted. After initial election, all new employees are automatically covered by Social Security.

^{20/} This is similar to the provisions of present law which permit ministers to opt out.

Other Recommendations Relating to Coverage

In the case of casual labor, employment by non-profit organizations, domestic employment, agricultural employment, and self-employment, certain tests are applied to determine if the employment is covered under Social Security. These amounts, in general, have not been changed since the original provisions were enacted. The Commission believes that the amounts should be increased to take account of the substantial rise in earnings levels which has occurred since then. Accordingly, the Commission recommends that the law be changed :

- (1) To increase the test for casual labor and employment by a nonprofit organization from \$100 per year to \$150 a quarter. This will ease the reporting burden for these organizations, which often have part-time, low-paid employees.
- (2) To increase the amount of self-employment income needed for coverage from \$400 a year to \$600 a year;
- (3) To eliminate the provision under which agricultural workers are covered whenever they work at least 20 days in a year for the same employer (the current \$150 a year earnings test would be retained); and
- (4) To cover domestic employment when the employee earns \$150 per quarter from an employer (the current requirement is \$50).

Benefit Offset for Current Employees

The Social Security system does not distinguish between people who have always had low earnings and those whose average covered earnings are low because they worked primarily in non-covered employment. As a result, the advantages which the weighted benefit formula was designed to give to the low-paid are also given to the higher-paid who work for a relatively brief period in covered employment. This leads to unintentionally high benefits for two groups:

- (1) those who derive benefits from non-covered pension plans, such as Civil Service Retirement or State and local plans, at the same time that they receive Social Security benefits (dual beneficiaries) ; and
- (2) individuals who work in a non-coordinated system briefly, but do not receive benefits based on that service.

The combined cost of the windfall portion of the Social Security benefits paid to the two groups described above is currently estimated to be \$1.9 billion per year. The extra costs are borne by those workers who pay into the Social Security system for their entire working careers. For example, a worker with the minimum required covered employment of 10 years contributes only one-fourth of what those covered by Social Security throughout their entire work lives contribute, but receives nearly one-half of the total benefits.^{21/} The

^{21/} The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State, and Local Governments and Private, Nonprofit Organizations, Report of the Universal Social Security Coverage Study Group, March 1980, p. 250.

Commission believes this is an unwarranted “windfall”. It would eventually be eliminated if the Commission’s recommendation to extend coverage to all newly hired government employees were adopted.

Among Federal employees, dual entitlement is widespread. In 1975, an estimated 69 percent of Civil Service Retirement annuitants were also receiving a primary Social Security benefit or will receive one upon reaching retirement age. In addition, there were Civil Service Retirement annuitants with little or no earnings covered by Social Security who lacked currently insured status under Social Security yet who, through work after 1975, might qualify. Adding them would raise the numbers of Civil Service Retirement annuitants who would ultimately become eligible for Social Security to an estimated 80 percent.^{22/}

This advantage should not be available to non-covered government employees. The early-retirement provisions of many non-covered government plans make it possible for retired government employees to have a significant amount of subsequent employment that is covered by Social Security. While this employment should be properly reflected in the individual’s retirement income, the windfall element should be phased out as rapidly as possible. The phase-out should be designed in a way which would provide minimal disruption to the retirement plans of current employees.

^{22/} Myers, Robert J. , “Extent of Windfall Social Security Benefits for Civil Service Employees”, Employee Benefits Journal, Summer, 1979, pp. 40-43.

The Commission recommends that the Primary Insurance Amount of civilian employees of the Federal government and of State or local governments, who have future employment not covered by Social Security be computed by:

- (1) Considering all of the person's earnings (after the effective date) to be earnings covered by Social Security;
- (2) Computing a Primary Insurance Amount on the basis of both covered earnings and such non-covered earnings (but only in such amounts as needed to bring total earnings up to the maximum amount used for Social Security purposes);
- (3) Basing the person's Primary Insurance Amount on the product of the amount derived under (2) and the ratio of covered earnings to the total of covered and non-covered earnings.^{23/}

In the past, it would have been difficult to compute a Primary Insurance Amount on the basis of both covered and non-covered earnings; however, since 1978, all earnings have been reported to

^{23/} As an example, consider an individual who retires from governmental employment that is not covered by Social Security at age 55, 15 years after the effective date, and who then works for 10 years under Social Security. If indexed earnings at \$15,000 a year in both types of employment are assumed, the Average Indexed Monthly Earnings would be \$892. (25 years at \$15,000 per year, averaged out over the 35-year period for computing AIME).

Using the benefit formula applicable to those attaining age 62 in 1981, this would produce a Primary Insurance Amount of \$407.90. This would be multiplied by the ratio of actual indexed covered earnings to total countable indexed earnings (\$150,000 divided by \$375,000) to produce the individual's Primary Insurance Amount, \$163.20. Under present law, without this procedure, the Average Indexed Monthly Earnings would be \$357, and the Primary Insurance Amount would be \$236.70, or 45 percent higher than under the proposal.

the Social Security Administration on the Federal income tax form W-2. Thus, information on both covered and non-covered earnings is available to the Social Security Administration.

A similar windfall exists under the Hospital Insurance program. Under present law, a government employee can obtain the valuable protection of Hospital Insurance benefits by working under Social Security for as little as 10 years at relatively nominal earnings. At the same time, he or she may have had many years of non-covered governmental service at high wages on which no Hospital Insurance contributions were paid. Extending Hospital Insurance coverage to all current and future workers, as recommended by the Commission, would provide uniform protection to all government employees.

Financing Implications

Extending coverage as recommended by the Commission would have little effect on the short-term financing of the Social Security program. In the longer-run it would provide significant additional income. Over the next 75 years the cost of the Old-Age, Survivors, and Disability Insurance programs would thereby be reduced by .53 percent of taxable payroll and the cost of the Hospital Insurance program by .41 percent of taxable payroll. The cost of general revenues needed to finance the coordinated plans for Federal employees will depend upon the approach to coordination taken.